

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 USIA-15 /096 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 9874

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL ZURICH

UNCLAS BERN 4373

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS REIMPOSE NEGATIVE INTEREST ON FOREIGN DEPOSITS

REF: A) BERN 3928; B) BERN 4139 (OCTOBER 4, 1973)

1. ON NOVEMBER 20 FEDERAL COUNCIL DECIDED REIMPOSE
NEGATIVE INTEREST RATE ON INCREASES IN SWISS FRANC
DEPOSITS HELD BY NONRESIDENTS IN ORDER REDUCE UPWARD
PRESSURE ON SWISS FRANC. PREVIOUS 2 PERCENT PER QUARTER
NEGATIVE RATE, WHICH WAS DROPPED OCTOBER 1, 1973 (REFTEL
B), NOW RAISED TO 3 PERCENT PER QUARTER (12.55 PERCENT
P.A.) AND MADE RETROACTIVE TO ALL INCREASES IN NONRESIDENT
SWISS FRANC ACCOUNTS SINCE OCTOBER 31 THIS YEAR.
BALANCES HELD NOT SUBJECT TO NEGATIVE RATE BUT ON OCTOBER 31
WILL NOT RECEIVE ANY INTEREST. COUNCIL ALSO GAVE SWISS NATIONAL
BANK (SNB) NEW POWER TO LIMIT VOLUME OF TRANSACTIONS IN FORWARD
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MARKET (ANY TRANSACTION MORE THAN TWO DAYS IN FUTURE WILL

BE CONSIDERED FORWARD) IF MARKET CONDITIONS SO REQUIRE.

2. THESE ACTIONS TAKEN TO STEM GROWING DEMAND FOR SWISS FRANCS WHICH HAS FORCED FRANC TO RECORD HIGH LEVELS AGAINST ALL MAJOR CURRENCIES. PRESSURE ON FRANC BEGAN WHEN SNB LIFTED BAN ON INTEREST PAYMENTS ON FOREIGN ACCOUNTS OCTOBER 21, 1974 (REFTEL A), AND LARGE AMOUNTS OF DOLLARS (PRESUMABLY PETRODOLLARS) BEGAN FLOWING INTO SWITZERLAND. BETWEEN OCTOBER 21 AND NOVEMBER 19 DOLLAR FELL FROM APPROXIMATELY SF 2.88 TO SF 2.60, A FRANC APPRECIATION OF MORE THAN 10 PERCENT. THIS MOST RECENT JUMP IN VALUE OF FRANC, COMING ON TOP OF A TRADE WEIGHTED APPRECIATION OF ABOUT 33 PERCENT AGAINST ALL CURRENCIES AND 50 PERCENT AGAINST DOLLAR SINCE MAY 1971, CAUSED GREAT CONCERN ABOUT CONTINUED COMPETITIVENESS OF SWISS EXPORTS. SNB WAS VERY RELUCTANT TO ATTEMPT MARKET INTERVENTION DUE IMPACT THIS WOULD HAVE ON DOMESTIC LIQUIDITY IN TIME OF HIGH INFLATION, SO DECISION WAS MADE TO REINTRODUCE NEGATIVE INTEREST.

3. WHEN NEWS OF COUNCIL'S ACTION REACHED FOREIGN EXCHANGE MARKET AFTERNOON OF NOVEMBER 20, REACTION WAS SWIFT AND SPOT DOLLAR STRENGTHENED IMMEDIATELY. DOLLAR, WHICH HAD ALREADY IMPROVED SOMEWHAT DUE FEDERAL RESERVE AND OTHER CENTRAL BANK INTERVENTION, JUMPED FROM SF 2.67 TO SF 2.79 BY CLOSE OF TRADING. OPENING RATE ON NOVEMBER 21, HOWEVER, HAD SLIPPED BACK TO SF 2.7650 IN CALM TRADING. AN SNB SOURCE REPORTED THAT SNB NOW HOLDING TALKS WITH COMMERCIAL BANKS TO WORK OUT PROBLEMS CREATED BY REGULATIONS. COMMERCIAL BANKS HAVE BESIEGED SNB WITH REQUESTS FOR EXCEPTIONS AND SOURCE SAID IT WOULD TAKE AT LEAST SEVERAL DAYS BEFORE ALL DETAILS IRON OUT.

4. PRESS REPORTS INDICATE INITIAL REACTION OF COMMERCIAL AND PRIVATE BANKERS MIXED ON EFFECTIVENESS OF SNB ACTION, BUT ALL RECOGNIZED NEED TO REDUCE FOREIGN DEMAND FOR SWISS FRANCS.
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